

Strengthening the Global Trade Architecture for Development

Bernard Hoekman

The World Trade Organization (WTO) has a role to play in strengthening the global trading system for development, primarily by lowering barriers to trade in goods and services and ensuring that trade rules are useful to developing countries. But greater international cooperation must complement WTO-based negotiations—in particular, concerted action outside the WTO to enhance the trade capacity of poor countries ("aid for trade").



Summary findings

Despite recurring rounds of trade liberalization under the auspices of the World Trade Organization (and its predecessor, the General Agreement on Tariffs and Trade, or GATT), complemented by unilateral reforms, many developing countries have not been able to integrate into the world economy. Hoekman argues that from the perspective of the poorest countries, a multipronged strategy is required to strengthen the global trading system. Moreover, much of the agenda must be addressed outside the WTO.

The most important contribution the WTO can make to development is to improve market access conditions—for goods and services—and ensure that trade rules are useful to developing countries. Enhancing trade capacity requires concerted action outside the WTO (“aid for trade”) as well as unilateral actions by both industrial and developing countries to reduce antitrade biases.

This paper—a product of Trade, Development Research Group—is part of a larger effort in the group to investigate how the WTO can be used more effectively by developing countries to integrate into the world economy. Copies of the paper are available free from the World Bank, 1818 H Street NW, Washington, DC 20433. Please contact Paulina Flewitt, room MC3-333, telephone 202-473-2724, fax 202-522-1159, email address pflewitt@worldbank.org. Policy Research Working Papers are also posted on the Web at <http://econ.worldbank.org>. The author may be contacted at bhoekman@worldbank.org. January 2002. (33 pages)

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Bernard Hoekman*

The World Bank and CEPR

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Since the entry into force of the agreement establishing the World Trade Organization (WTO), it has become clear that many governments and civil society groups in developing countries have been disappointed with the outcome of the Uruguay Round, both in terms of market access payoffs and the implementation of certain WTO agreements. There is also a widespread perception that efforts to negotiate additional disciplines on domestic regulatory policies in the WTO may divert attention away from more critical development-related priorities.¹

In the run-up to the 1999 WTO ministerial meeting in Seattle, a number of prominent observers and policymakers called for the launch of a ‘Development Round’ of negotiations under WTO auspices to address developing country concerns. Similar calls are presently being made in the run-up to the 2001 ministerial meeting in Doha. This paper discusses how the global trade architecture might be made more supportive of development.² Two major arguments are made, both of which can be seen as preconditions for greater coherence in international and national policymaking, improving the governance of the trading system, and, ultimately, ‘managing globalization’ (Helleiner, 2000).

First, because trade policy is a critical element of development strategies, the WTO has a significant role to play in making trade a more effective tool for poverty-

¹ See Bhagwati (2000b), the contributions in Hoekman and Martin (2001), the May 2001 issue of *The Review of International Economics*, Wang and Winters (2000), the Harvard Global Trade Negotiations homepage <http://www.cid.harvard.edu/cidtrade> and www.worldbank.org/trade for in-depth analyses of many of the issues.

² This issue is also addressed by World Bank (2001c), Bhagwati (2000a) in numerous essays, Oyejide (2000) and Rodrik (2001b).

reducing growth. WTO members can do this through pursuit of a ‘traditional’ market access agenda that focuses on all products—goods *and* services—without exception, that is, includes agriculture and labor-intensive manufactures such as apparel. From a development point of view, reducing market access barriers, both in OECD *and* in developing countries, should be a priority. In addition, greater attention should focus on ensuring that multilateral rules support the development of low-income countries—i.e., are not inappropriate given institutional capacities and constraints. Expanding the set of players involved in domestic trade policy formulation and the preparation of negotiating positions can help achieve this objective, in the process enhancing the ‘ownership’ of eventual agreements.

Second, market access and development ‘friendly’ WTO rules are of limited value to low-income countries if not complemented by actions to enhance their capacity to trade. Many of the trade-related constraints confronting low-income economies cannot (should not) be addressed through negotiations. Instead, they are domestic policy issues that require national action to improve the investment climate, strengthen domestic regulation, and so forth. Such actions could benefit from a concerted multilateral effort outside the WTO to mobilize additional financial and technical assistance (‘aid for trade’), channeled through the appropriate existing institutions for development cooperation.

1. Market Access and Multilateral Rule Making

The bread and butter of the GATT/WTO has always been the reciprocal reduction of barriers to trade. As is well known, over time, as tariffs and nontariff barriers came down,

attention increasingly began to center on the negotiation of disciplines for domestic policies that could affect trade. In the Uruguay Round, agreements were negotiated that required harmonization of domestic regulatory policies that had only indirect effects on trade—the Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS) is the most prominent example. Although the reduction of trade barriers is generally welfare improving for countries, given differences in institutional capacity and reform priorities, this is not necessarily true for efforts to harmonize domestic regulatory regimes.³

Greatly improving market access for goods and services produced in developing countries and ensuring that multilateral rules support development, and are *seen* to be doing so by civil society, are important elements of enhancing the development relevance of the WTO. The latter has a number of dimensions: increasing the participation of developing countries in the process of rule-making and negotiations; devising procedures to ensure that implementation of agreements promotes development; and dealing with policies that create international spillovers in an appropriate manner.

Market access

Despite the low average MFN tariff rates that apply in developed countries, tariffs for some commodities are over 100 percent. Tariff peaks—rates above 15 percent—are often concentrated in products that are of export interest to developing countries. In 1999, in the US alone, imports originating in least developed countries (LDCs) generated tariff revenue of \$487 million, equal to 11.6% of the value of their exports to the US, and

³ See Hoekman and Kostecki (2001) or Srinivasan (1998) for more detailed discussion of the WTO and developing countries and citations to the literature.

15.7% of dutiable imports (US Department of Commerce, 1999).⁴ Eliminating such market access barriers can help boost investment incentives and expand trade-related employment. Emulation by all OECD countries of recent decisions to grant full duty and quota free access to LDCs by the EU, Norway and New Zealand would therefore be beneficial to these countries—potentially increasing LDC exports by over 10 percent.⁵ As LDCs account for only 0.4% of world trade, offering these countries duty free access will have only a very limited effect on total imports into OECD nations—suggesting that adjustment pressures will be small.

Although the LDCs are by definition among the poorest countries in the world, in absolute terms most of the poor live in developing countries that are not classified as LDCs. From a poverty alleviation perspective, it is therefore vital that market access improves for *all* developing countries. Given that non-LDCs are significant traders, this will require reciprocity; liberalization in the OECD is unlikely to be politically feasible if governments (interest groups) cannot point to ‘compensating’ reductions in developing country trade barriers.⁶ As average barriers in developing countries are higher than in industrialized nations, much of the potential welfare gains from liberalization will arise from reducing trade barriers in developing countries.⁷ The large potential payoff from reciprocal tariff liberalization provides a strong rationale for engaging in traditional GATT-type tariff negotiations.⁸

⁴ This calculation excludes Angola, 95% of whose exports are oil-related and not dutiable.

⁵ Hoekman, Ng, and Olarreaga (2001); Ianchovichina, Mattoo and Olarreaga (2000); UNCTAD (2001).

⁶ Finger and Winters (2001) discuss the role of reciprocity in the WTO.

⁷ See Hertel and Martin (2000) and Bhagwati and Panagariya (2000).

⁸ There is a preponderance of evidence that there is a positive relationship between openness to trade and growth (e.g., World Bank, 2001b, Srinivasan and Bhagwati, 1999). Although sceptics, e.g., Rodrik (2001b), argue that the strong association between exports and growth does not allow one to be sure about the direction of causality, the two are jointly determined by the strength of countries’ institutions. Most agree

The same argument applies to LDCs as well. As noted by Winters (1999), when it comes to trade policy, the payoffs to negotiations and liberalization are primarily a function of domestic action—the extent to which own protection is reduced.⁹ Thus, these countries should also participate in any general lowering of trade barriers negotiated under WTO auspices.¹⁰ As negotiations invariably take time and agreements are only implemented gradually, the immediate extension of duty-free access to all OECD markets advocated above can be seen as front-loading of liberalization by major trading partners. Given that LDCs have no market power in negotiating down foreign trade barriers—where tariff peaks can be over 100 percent—unilateral action is required: they cannot rely on reciprocity to achieve duty-free access.

Two sectors that matter greatly from a developing country export perspective are textiles and clothing and agriculture. Although the WTO Agreement on Textiles and Clothing requires the abolition of textile quotas by 2005, tariff barriers to trade in this sector remain high. High tariffs for agricultural commodities and continued high levels of subsidization of agriculture in many OECD countries have a major detrimental effect on agricultural exporters such as Argentina and Brazil. In addition to labor-intensive manufacturing and agriculture, liberalization of trade and investment in services is a major element of the market access agenda. Back of the envelope calculations by Winters (2001) suggest that the income gains that could accrue to developing country nationals from allowing an increase in temporary access by service suppliers equivalent to 5

that the resulting policy prescription is a comprehensive approach to development that includes improvement of a range of institutions, including safety nets, along with trade liberalization (World Bank, 2001a).

⁹ A useful mnemonic used by Winters in this connection is WYDIWYG: what you do is what you get.

¹⁰ Although fiscal constraints may imply that low-income countries need to maintain tariffs above the average prevailing in more advanced economies for revenue collection purposes.

percent of the OECD population are in the \$300 billion range. Liberalization of services is more complex than negotiating down tariff barriers to trade in goods, as it involves movement of people, foreign direct investment (FDI) and regulatory reform. A careful evaluation of services trade policy requires analysis of the conditions of competition in a particular sector and the need for regulation to achieve efficiency and equity (Mattoo, 2001). This has implications for both development assistance (the ‘complementary agenda’) and proposals to adopt multilateral rules in the investment and competition areas (see below).

Market access has two additional important dimensions: disciplining the use of contingent protection and reducing the extent of discrimination that is created by regional integration agreements (RIAs). A major benefit of a general, MFN-based reduction in trade barriers is to reduce the downside of RIAs for nonmembers from RIAs (World Bank, 2000). The threat of safeguards and related policies (especially antidumping) reduces the value of trade liberalization to exporters. Antidumping has now become a frequently used instrument in both industrialized and developing countries (Finger et al., 2000).

Rule Making, Development Priorities and Policy Coherence

Multilateral negotiations on non-border policies, administrative procedures and domestic legal regimes have proven to be much more complex than traditional market access talks. As it is much more difficult to trade ‘concessions’, the focus tends to be on identification of specific rules that should be adopted (Hoekman and Kostecki, 2001). Given disparities in economic power and resources, the outcome often reflects the status quo in high-

income countries. These may be fully consistent with development priorities of low income countries, but there is no presumption this will be the case.

Developing country concerns regarding the rule-making dimensions of the WTO became increasingly prominent in the 1990s (Oyejide, 2000). Concerns centered on the costs required to implement some WTO agreements; the absence of adequate financial assistance and the failure of high-income countries to grant ‘special and differential’ treatment to developing countries;¹¹ and, more fundamentally, that the rules of the game were not always compatible with national efforts to reduce poverty and increase economic growth.

The costs associated with complying with certain WTO disciplines—e.g., on customs valuation—can be significant, not so much because of the rules themselves,¹² but because of the ancillary investments that are required. The norms that are imposed in WTO agreements are often those prevailing in OECD countries, implying that implementation costs may not only be significant for poor countries, but are asymmetrically distributed. This does not necessarily imply that WTO rules are bad from a development perspective,¹³ but making them work in low-income countries may require wholesale reform and strengthening of the affected institutions. From a development perspective, the resources required might be better used for alternative purposes (Finger and Schuler, 2000).

One option that is sometimes proposed to deal with potential implementation

¹¹ Most provisions in WTO agreements calling for ‘special and differential’ treatment of developing countries are so-called ‘best endeavor’ commitments—they are not binding on high-income countries.

¹² TRIPs is an exception, given the rent transfers that are likely to be involved. See World Bank (2001c).

¹³ Exceptions are the antidumping agreement, which most economists agree makes no economic sense, and TRIPs—where there is less consensus, but many argue that the costs may outweigh any gains for low-

problems is move towards a formalization of a two-track multilateral trading system—where not all disciplines apply to all members. This is not in the interest of poor countries given power asymmetries. Past experience has demonstrated that the payoff to seeking to opt out through a strategy of ‘special and differential treatment’—the traditional approach of developing countries—was low. However, it was also the case that the opt-out strategy prevented countries from being subjected to rules that involved significant implementation costs. What is needed is that the rules that emerge from negotiations represent and advance the interests of people in developing countries.

As Chadha et al. (2000), Finger (2001) and Rodrik (2001a) argue, for some of the issue areas that are negotiated in the WTO, a ‘one size fits all’ approach to regulatory policies may not be appropriate because it is excessively costly for developing countries. For the rules to make sense for all members, stakeholders in developing countries must participate in the domestic policy formation process, be able to inform national representatives of their views and hold them accountable for outcomes. If WTO agreements were unambiguously seen to be conducive to (consistent with) attainment of development objectives by constituencies in developing countries, implementation would be much less of an issue.

Even if agreements make sense from a development perspective, not all countries will be able to implement them at the same speed. Many will need assistance. Determining the investments needed in low-income countries would help identify likely implementation constraints. Recognition of such constraints could include acceptance of flexibility in terms of timeframe and modalities of implementation by low-income countries.

income countries. See Maskus (2000) for a survey of the literature on TRIPs and further discussion.

Towards Greater Ownership: Participation and Transparency

The Uruguay Round marked a change in the attitudes of many developing countries regarding participation in negotiations. From being largely uninvolved and reactive, many became active participants in the negotiating process (Tussie and Lengyel, 2001). However, this did not prevent these countries from being confronted with bad outcomes. Participation is not enough; to be effective it requires a clear understanding of national objectives and priorities, and how multilateral agreements and international cooperation can help achieve them.

At the time of the Uruguay Round, there was only limited developing country experience in “new areas” such as intellectual property protection and service sector regulation on which the negotiators could draw. Many poor countries have yet to create intellectual property regimes that makes traditional knowledge or cultural products into a negotiable and defensible asset, or to identify alternative options to upgrade and enforce national product, health and safety standards. In many of these regulatory areas, the trial and error experience—the assessments of the real-world impacts of alternative policy options—that can inform the design of multilateral rules that support development does not exist (Finger, 2001).

This lack of experience also makes it difficult to establish lines of communication between policymakers (negotiators) and key domestic constituents that have interests that can be pursued through multilateral talks—be it domestic reforms or policy changes in partner countries to enhance market access. In the case of industrialized countries, delegations and policymakers are informed and lobbied by domestic regulators and

private sector interests, both commercial and NGOs. Most developing countries have much weaker linkages with stakeholders, impeding their ability to build the political support needed for welfare-improving reforms.

For civil society to ‘own’ the WTO, members must perceive that multilateral agreements help attain national objectives (and do not work against the attainment of such objectives). Getting it right in a technocratic sense is not sufficient; there must be strong local support for what is (being) negotiated. As interests will differ and may conflict, mechanisms to allow distributional conflicts to be resolved in a transparent fashion are important. This is not straightforward to achieve, given that trade policy is inherently a nontransparent redistributive policy instrument, and is often used for that reason.

Enhancing the transparency of WTO operations and improving access to—and dissemination of—WTO databases, reports and information (for example, data underlying national trade policy reviews) would help civil society (think tanks, NGOs) engage in the policy formation process (Francois, 2001). Much progress has been made in comparison with the GATT in terms of access to documentation, but more can and should be done to ensure that the agenda and outcomes of WTO meetings are made public. Of particular importance is that the results of negotiations are made publicly available in user-friendly form. For example, data on tariff bindings are currently not publicly available in a usable database format, preventing analysts from undertaking cross-country research. This is important because it impedes efforts to estimate the magnitude and incidence of costs of protection. It is a truism that to reduce protection and resist protectionist pressures those that lose (pay) need to be aware of the costs of such

policies. The suppliers of, and the clients for, such analysis and information extend beyond governments to include think tanks, research institutes and the constituencies in individual countries who are affected by policy. To do this, they need easy access to the relevant data.

Another determinant of ownership of agreements is the ability of countries to participate in the WTO process. Many developing countries have inadequate (or no) representation in Geneva, impeding active engagement in negotiations. Although options have been identified to expand representation in Geneva at relatively low cost—for example, Blackhurst, Lyakurwa and Oyejide (2000) propose transferring national representatives from UN bodies to Geneva and more intense cooperation by members of regional integration arrangements—there is limited expertise available in most countries. A case can be made that funding should be made available to allow low-income countries to finance the cost of hiring experts to assist governments to undertake the required analyses (Winters, 2001). Such advice and expertise needs to be available on a long-term basis to policymakers on a country-by-country basis. Given that there are dozens of countries requiring assistance (the LDC group alone already numbers 49), the annual cost of such an assistance program will not be insignificant. However, synergies could be realized through networking and collaboration between advisors. For example, the new Global Development Gateway that is being established by the World Bank in cooperation with numerous public and private sector partners could provide a potentially powerful vehicle for building a trade community and sharing expertise and experiences.

The Regulatory Agenda and Issue Linkage

An implication of the foregoing is that multilateral cooperation on regulatory policies that involves efforts to harmonize should be scrutinized carefully. In cases where it is unclear that all members will gain, cooperation is better pursued outside the WTO—thus removing the potential threat of binding dispute settlement and possible trade sanctions, and allowing national experience to be built up in the areas concerned. This is not to deny there are potential gains from international cooperation on regulatory policies—witness the many organizations and bodies that seek to determine good practices and establish international norms and focal points. Examples are international product standards set by the International Organization for Standardization, phytosanitary norms established by the Codex Alimentarius Commission, financial standards created under auspices of the Bank for International Settlements and good practices in customs clearance defined by the World Customs Organization. However, the norms concerned are not arrived at through a process of *quid pro quo* negotiation where market access is made conditional on the adoption of specific norm. Instead, implementation is driven by the self-interest of countries, with assistance from relevant international institutions as well as bilateral donors, and is not subject to binding dispute settlement. The latter is of course a major reason why these issues are proposed for inclusion in the WTO. However, there is a great danger in overloading the institution and reducing its legitimacy and support by using it as an enforcement agency for norms developed by technical and specialized bodies.

A corollary of the above argument is that greater care is required in the use of cross-issue linkages in WTO negotiations. The classic argument in favor of expanding the trade negotiating agenda to include regulatory issues is that this allows for more

tradeoffs and increases the potential gains from trade (see Hoekman and Kostecki, 2001 for a guide to the literature). A necessary condition for such issue linkage to be beneficial for all concerned is that the implications of alternative deals can be costed out. In practice this is hard to do for developing countries, especially when it comes to 'new' issues where there is little national experience. This is a major reason why developing country negotiators have often been risk averse in GATT/WTO negotiations. Issue linkage and 'grand bargains' can easily result in agreements that have little ownership.¹⁴ Agreements that imply the need for significant investment of scarce resources may not be worth concluding, even if there is a quid pro quo (e.g., greater market access or the removal of the threat of unilateral sanctions). This is not to say linkages involving regulatory policies cannot be beneficial or that attempts to harmonize trade-related policies in the WTO is inappropriate. However, care must be taken if part of the deal involves resource-intensive regulatory commitments and institutional reforms.

Two controversial policy areas to which the foregoing applies are environmental and social regulation. Both are important from a development perspective. However, what is required first and foremost in these areas is assistance for developing countries to create the property and social rights that will allow local stakeholders to defend their interests and resources to be allocated in a more efficient manner. These are development issues. Embedding substantive disciplines in the WTO to allow trade sanctions to be used as an enforcement device is badly conceived as it can easily worsen outcomes (e.g., by forcing workers in targeted countries into informal or illegal activities). Account should also be taken of the obvious danger that protectionist interests will capture the process.

¹⁴ See, e.g., the statement by 99 third world NGO representatives and intellectuals against linkage between social and environmental issues and market access in the WTO (TWIN-SAL, 2001).

Positive incentives are needed—carrots, not sticks. Direct support and assistance of the type provided by specialized bodies with the requisite expertise such as the ILO and multilateral development agencies can most efficiently and directly improve outcomes. For example, efforts could be made to improve the quality of, and access to, primary education for poor children in order to reduce child labor exploitation, e.g., via programs to subsidize the purchase of school supplies, provide transportation, and reduce the costs of schooling (Maskus, 1997). Programs along these lines are supported by the ILO and development institutions in numerous countries.

In the case of environmental policies—which clearly can give rise to serious global commons issues—the primary need is to clarify the relationship between WTO rules and multilateral environmental agreements (Rollo and Winters, 2000). Actions are also needed to ensure that unilateral actions by countries that are motivated by environmental objectives are consistent with the WTO. These are issues that have given rise to a number of disputes in recent years. Defining what is acceptable in terms of standards-setting and national enforcement is an important question that should be clarified. However, setting and enforcing standards in this area is not be a task for the WTO.¹⁵

Two other regulatory policy areas that have been proposed for negotiation in the WTO are investment and competition policy. These differ from labor or environment in that they are much more trade-related and cover policies that have a direct negative effect on low-income economies. Examples include tolerating anti-competitive behavior by national firms on export markets (e.g., shipping conferences that raise transport costs for

¹⁵ There is a large literature that provides strong support for these conclusions—see, e.g., Aderson and Blackhurst (1992) and Bhagwati and Srinivasan (1996).

developing country exporters)¹⁶ and OECD investment incentives that aim to prevent firms from relocating to developing countries.

FDI and competition policies are important for development and growth. At the same time, it is critical that the lessons of the Uruguay Round are borne in mind. Enforcement of competition law is an extremely complex issue, as is the appropriate design of the specific rules. These are national challenges, where national learning and experimentation should be encouraged. This is less the case for FDI policies, where the issues are better understood, and many countries have concluded bilateral investment treaties. In both areas, recent proposals that have been put forward by major proponents are sensitive to development concerns. Importantly, there is no call for substantive harmonization of competition legislation or criteria beyond a ban on hard core cartels, and a recognition that assistance must be provided to developing countries in this area.¹⁷ However, if major issues from a developing country perspective are kept off the table—e.g., OECD investment incentives, outlawing export cartels, disciplining antidumping—this will greatly reduce the potential gains from negotiating on these subjects.

Implementation of Agreements

Even if proposed agreements have strong support in developing countries (i.e., have clear supporters and stakeholders), implementation may have significant resource implications. Doing more to assess the impacts of agreements *ex ante*, including a costing out of investment requirements, would help avoid difficulties *ex post*. The most straightforward approach to implementation problems would be to rely on ‘revealed preference’: if

¹⁶ See Fink, Mattoo and Neagu (2001), Francois and Wooton (2001) and World Bank (2001c).

countries do not implement, this is a prima facie signal that the agreement in question is not deemed to be a development priority. This approach has major drawbacks, however, as there is not necessarily a link between development priorities and non-implementation. Groups that derive rents from policies that impede poverty-alleviating growth may be able to block beneficial reforms. Making agreements nonbinding would also create incentives for strategic behavior and greatly impede the negotiation of agreements in the first place.¹⁸ A major function of the WTO is to help countries overcome political economy constraints that prevent the adoption of welfare-improving policies. The challenge then is to allow for development concerns to be taken into account in instances where circumstances are such that resource constraints prevent effective implementation of WTO agreements that were deemed at the time of negotiation to be beneficial.¹⁹

One option could be to adopt an arbitration procedure for implementation disputes that involve low-income countries. Such arbitration could be based on a two-stage ‘implementation assessment’ on a country-by-country basis, at the request of governments who desire more time to meet WTO norms (once applicable transition periods have expired). This could involve a determination of what is required to implement the agreement(s) in a way that makes sense from an economic perspective (including a costing out of necessary ancillary reforms and investments), the time frame

¹⁷ See <http://europa.eu.int/comm/trade>.

¹⁸ The same is true for arguments that the WTO should become more permissive of national approaches and exceptions to negotiated rules as has been suggested by Rodrik (2000). Such ‘hollowing out’ of the rules of the game can ultimately make them meaningless.

¹⁹ It should be emphasized that the focus here is on agreements that require real resource investments and institutional strengthening, not on agreements that can be implemented by decree or involve the abolition of a specific policy—e.g., changes in tariffs, abolition of MFA quotas, or reductions in subsidies. The approach discussed here will not address developing country concerns that some of the Uruguay Round agreements are detrimental to their interests. This is something that would have to be addressed directly in the context of a new round of negotiations.

that would be required given sequencing considerations and institutional capacity, and an assessment of the adequacy of the financial assistance that has been offered by donors.²⁰ The assessment would need to be transparent and objective. It could be undertaken by panels of development and trade experts, reporting to the WTO Committee on Trade and Development.²¹ Active involvement of national economic policymakers—as opposed to Geneva-based trade officials—would be critical to ensure consistency with economic development priorities and strategies.

A mechanism of this kind could help foster greater policy ‘coherence’ by providing a vehicle to discuss how WTO disciplines requiring substantial investments of scarce resources can be implemented consistently with a country’s development strategy. It would also generate information on the constraints that prevail, and the adequacy of development and other assistance that has been provided or offered. By providing a forum for the development and trade communities to interact on implementation issues, it could help both developing and donor countries improve internal policy coherence.

To date, the approach that has been pursued in the WTO with respect to implementation problems has been primarily agreement-specific. This has involved requests for extension of transition periods in relevant WTO Committees and the

²⁰ Such assessments could be informed by national development frameworks such as the Poverty Reduction Strategy Paper (PRSP) in the case of low-income economies, as these establish development priorities on a country-by-country basis (see www.worldbank.org for a description of the PRSP process). In the case of LDCs, diagnostic reports prepared under auspices of the Integrated Framework (IF) for trade related technical assistance could also be part of the implementation assessment process. The IF is a joint venture of six international agencies (IMF, ITC, UNCTAD, UNDP, World Bank and WTO), donors and LDCs. The IF supports efforts to ensure that trade policy, trade-related technical assistance, and capacity-building needs are articulated in a broader development context. Donors have created a trust fund dedicated to helping LDCs ‘mainstream’ trade into national development strategies.

²¹ A ‘lighter’ approach in administrative terms to this issue could involve the appointment of an ombudsman or arbitrator who would be given the mandate to undertake the assessment. Such a person would need to be a development expert, not a trade official, so as to ensure that implementation is considered in a broader context.

Council, complemented by efforts to develop technical assistance (TA) work programs and to obtain information from the major suppliers of TA on their activities in a particular area. While this is useful in generating information on issue-specific needs in developing countries, it does not allow identification of the relative importance of these needs in the context of the overall development strategy of the countries concerned. Indeed, the issue is not raised. Even if considered a priority, it does nothing to place trade issues in the context of the country assistance strategies of multilateral development banks and bilateral donor assistance agencies. A major lesson from the failure of the Integrated Framework to mobilize financial support for trade capacity building between 1997-2000 was that trade needs assessments were undertaken in isolation of national development strategies. Consequently, they did not attract financing by donors and were not ‘owned’ by domestic economic policy-making teams (Rajapatirana et al., 2000). A country-specific approach can allow issues to be considered in a broader development context.

Enforcement of agreements

Issues relating to the cost of implementing a subset of WTO agreements and concerns about their contribution to development are one dimension of the ‘implementation’ agenda. Another dimension is implementation of market access commitments by trading partners. Low-income countries may have difficulty enforcing their rights through the WTO dispute settlement system.²² Political realities—asymmetric distribution of power; threats of cross-issue linkages and retaliation—may constrain the ability (willingness) of governments to assist national firms defend their rights in the WTO. Poor countries may

²² What follows draws on Hoekman and Mavroidis (2000).

also find it more difficult to determine when trading partners use WTO-illegal policies to constrain imports. These factors suggest that dispute settlement should be more of a collective (multilateral) endeavor.

One option that could be considered to reduce the need for individual countries to take actions would be the establishment of an independent ‘Special Prosecutor’. This office could be granted the mandate to identify and contest potential WTO violations on behalf of developing countries, using information drawn from private sources, the Trade Policy Review Mechanism (Francois, 2001), the press, etc. Such outsourcing of enforcement could help leverage the activities of the newly created Advisory Centre for WTO Law (see www.wto.org) by addressing both the resource constraints and the incentive problems (fear of cross-issue linkage) that may impede developing country governments from pursuing cases. Although cases brought by the special prosecutor could not be backed by the threat of retaliation (as they are not brought by or on behalf of a government), findings against a WTO member would lead to moral pressure to bring measures into conformity. Historically, this has been an important factor in inducing WTO members to abide by the rules of the game.

2. Complementary Actions to Harness Trade for Development

A variety of parallel actions to assist developing countries could usefully complement efforts in the WTO to make agreements more relevant from a development perspective. A key need is to strengthen the ability to identify and defend national interests and trade policy priorities (a precondition both for participating effectively in the WTO as well as international bodies that set norms in areas such as product standards). Another is to

upgrade trade-related infrastructure and institutions and expand trade capacity. These are areas where actions must be taken by developing countries, but where greater international assistance, delivered through existing development-related institutions, could do much to help countries benefit more from improved market access.²³ What follows discusses a number of possible action areas.

Support to develop national trade constituencies and strategies

As noted previously, a precondition for domestic ownership of agreements is that there are constituencies that have an incentive to see specific reforms implemented. Support for country-specific studies that aim at identifying reform priorities and infrastructure needs (both soft and hardware) is an important dimension of this, as is identification of policy options and their distributional and growth impacts, and, critically, mobilization of finance to address the priority bottlenecks to trade and employment expansion. This is now a major focus of the Integrated Framework (IF) effort for LDCs. The issues and needs in low-income countries that are not LDCs are very similar. The assistance provided by the IF is premised on a PRSP or similar strategy document. Many of the low-income countries that are not regarded as LDCs are also preparing PRSPs, and these could also become the focal point for trade-related assistance. In cases where an analogous national strategy document does not exist, care will need to be taken to ensure that trade issues are placed in the context of overall development priorities (Rajapatirana et al, 2000).²⁴

²³ While improvements in the institutional and infrastructure areas discussed below will increase the benefits of trade reforms (market access liberalization), the latter should not be made conditional upon the former.

²⁴ As pointed by Rajapatirana in private correspondence, because trade policy is inherently redistributive,

Upgrading Institutional Capacity and Trade-related Infrastructure

A number of trade-related challenges confront all developing countries, including middle-income economies. Examples include meeting product standards, protecting intellectual property, regulating service industries; improving trade logistics and customs clearance, and, more generally, upgrading transport, communications and other key infrastructure services. All of these policy areas are important dimensions of the overall investment climate. Which (if any) are priorities will depend on individual countries, as a basic question for governments in these areas is whether incurring the investment costs makes sense from an overall development and poverty-reduction perspective. In cases where the answer is affirmative, low-income developing countries may need both technical and financial assistance to address specific needs. Global issue-specific initiatives to create mechanisms for multilateral cooperation in the delivery of technical assistance, expertise and resources in the areas concerned would be an important complement to WTO-centered activities.

As noted previously, in many regulatory areas there are potential gains from international cooperation, and institutions have been created for that purpose. In a number of instances WTO agreements and disciplines refer to norms that have been established under auspices of such bodies—examples are the World Intellectual Property Organization, the International Organization for Standardization, and the World Customs Organization. Global initiatives could also focus on ensuring that international norms

with losers from liberalization generally concentrated and gainers spread throughout the economy, there is a danger that a participatory process such as the PRSP will result in trade reform being neglected. Active support to assist countries in identifying the impact of status quo policies of the type offered by the IF may therefore have a high payoff.

make sense from a development perspective. This requires that more attention is given to the processes through which standards are set.

Bridging the Global Product Standards Divide

As poor consumers in low-income countries have limited access to information and do not have the resources to buy higher quality goods and services, they are dependent on efficient standardization and consumer protection regimes. Many low-income countries are not adequately equipped to adopt and enforce product standard requirements. Testing, and certification requirements can also be a serious obstacle for developing countries seeking to expand exports. Recent examples include Ugandan fish and South Asian shrimp, as well as proposed EU standards for aflatoxin that could reduce export revenue for African countries by more than \$600 million (Otsuki, Wilson and Sewadeh, 2001).

Developing countries face a series of challenges: they need to reform and upgrade standards setting regimes, establish efficient testing, certification, and laboratory accreditation mechanisms to conform with sanitary and phytosanitary (SPS) norms and technical product standards, *and* defend their interests in international standards-setting bodies that design global norms (Henson, Preibisch and Masakure, 2001). The latter has become more important following the presumption of the WTO SPS agreement that members should apply existing international standards. Modernization of infrastructure and capacity building to meet global regulatory requirements and standards can have large payoffs in terms of expanding trade opportunities. The same is true of reducing transactions costs associated with redundant testing and certification requirements, or efforts to ensure that international standards set by specialized bodies are appropriate for

developing countries. But, such actions also can be quite expensive. An initiative to bring together major development institutions, specialized standards setting bodies and bilateral donors to assist developing countries address such issues would help improve competitiveness and expand trade opportunities (Wilson, 2001).

Intellectual Property Rights and Development

Much attention has recently centered on the TRIPs agreement and its implications for development. Whatever its faults, the TRIPs agreement provides a great deal of latitude in terms of how countries implement it (Watal, 2001). However, the agreement is of little help to developing countries seeking guidance on how to minimize costs and maximize the benefits of intellectual property rights (IPRs) (Finger and Nogues, 2001). Low-income countries need to identify intellectual property that should be protected, thereby creating commercial assets whose value can be defended and augmented through the negotiation of international rules. Designing an intellectual property regime that is relevant for the situation and characteristics of a developing country is not straightforward. Simply copying the regime that is in place in an OECD country will not do. The type of intellectual property that needs to be protected varies across countries, as does institutional capacity. Funding is needed for country-level efforts to identify stakeholders and the assets that could benefit from protection.

This is an issue that extends far beyond pharmaceuticals and patent protection. While this is important, as patents can significantly increase the costs of medicines, IPRs can also benefit sectors in which traditional knowledge is a factor of production: music, crafts and design, community-based tourism, ethno-botanicals (Penna and Visser, 2001).

All have potential to generate substantial foreign exchange revenues and benefit the poor. Those developing countries with potentially valuable resources that could be protected—e.g., traditional knowledge and genetic resources—therefore may have a strong interest in developing IPR systems.

A variety of policies can also be pursued to reduce the magnitude of the income transfer from South to North that will be associated with implementation of TRIPs. Examples include facilitating the absorption and diffusion of know-how, vigorous enforcement of competition law, and direct regulation (Correa, 2000; Maskus, 2000). The TRIPs agreement allows significant latitude for governments to draft implementing legislation that attenuates the ability of right-holders to abuse their market power. The issue is to identify cost-effective ways to do so.

Service Sector Liberalization and Regulatory Reform

Buyers of services are often inadequately informed about the attributes of sellers, e.g., the competence of doctors and lawyers, the safety of transport services or the soundness of banks and insurance companies. Regulation can help offset such market failures, but may also impede trade. For example, in the case of professional services, low standards and disparities in domestic training and examinations can become a major impediment to obtaining foreign recognition. Thus, weak domestic regulation can legitimize external barriers to trade. More important for many developing countries is that inadequate domestic regulation may give rise to serious internal distortions. For example, the absence of pro-competitive regulatory policies may substantially reduce the social payoff to privatization if it results in rent transfers to the new private owners of the firms.

The need for effective regulation of financial services was highlighted by the recent financial crises in emerging markets—it is clearly a necessary condition for benefiting fully from liberalization.

For service sector liberalization to contribute to development, it needs to be supported by regulation and competition policy disciplines. Such institutions involve substantial startup and running costs, as well as sophisticated skills. For example, the total cost of government in Dominica in the late 1990s was \$41 million a year, while a bare-bones regulatory authority is likely to cost \$2 million each year, or 5% per cent of the budget (Mattoo, 2001). To some extent such costs can be recovered through fees or reduced via regional cooperation—but external assistance can help ensure that adequate regulation is in place.

To ensure that liberalization improves access of the poor to essential services, regulatory intervention may also be needed. For instance, competitive provision of subsidized public access helped increase household ownership of a telephone in Chile from 16 percent in 1988 to 74 percent in 2000 (Mattoo, 2001). Providing international assistance in meeting the costs of the required subsidy programs could greatly facilitate liberalization by ensuring that the needs of the poor would be met.

Trade Facilitation

Trade facilitation comprises the simplification and harmonization of international procedures affecting trade flows. Customs-related transaction costs—not including the opportunity costs of delays—can represent up to 10 percent of a shipment's value in some countries (Staples, 2001). Costs are compounded if there is corruption and delay.

More efficient procedures, electronic data exchange and minimizing redundancy can provide important benefits. Good practices in this area have been identified and agreed multilaterally under auspices of the World Customs Organization (WCO)—see Messerlin and Zarrouk (2000). However, many developing countries will be hard pressed to attain these standards, given weak institutions, lack of modern communications and information systems, inadequately trained staff, etc.

Developing countries are still struggling to implement the WTO customs valuation agreement, and they have doubts about the value of accepting additional mandatory obligations on trade facilitation given weak institutional structures, lack of modern communications and information systems, inadequately trained staff, and so forth. Even Canada, a developed country with ample resources, took five years to complete implementation of the valuation agreement (Staples, 2001). Poor countries can attain only gradually the good practices that are enumerated in the WCO and other conventions. Significant technical and financial assistance is needed for training and institutional strengthening, including in ancillary areas such as tax administration.

3. Conclusion

Three types of actions could help make the global trade architecture more supportive of development: (i) greatly improving market access for goods and services produced by workers in developing countries, (ii) ensuring that the WTO rules of the game support development, and (iii) international initiatives to help countries address national trade capacity constraints and improve environmental and social policies. The first two of these action areas center on the WTO. They do not imply making the WTO a development

institution. As argued by Finger (2001), attempts to move in this direction would be counter-productive. Instead, what is needed is action by developing countries (and the development community more broadly defined) to use the WTO to address those trade policies where multilateral disciplines would have the highest development payoff: market access.

A plethora of research suggests that expanding market access for manufactures, agriculture and services would generate large income gains in developing countries. While elimination of barriers in OECD countries is important in this regard, such gains will be maximized if remaining barriers in developing countries are also reduced significantly and are bound in the WTO. Broad-based reciprocal liberalization of barriers to trade in goods and services is the most important development-relevant dimension of the WTO. Given the urgent needs of the poorest countries, a good case can be made on equity grounds for OECD countries to grant immediate duty-free access to their markets for the poorest countries. This would permit them to compete on the same basis as the ‘most-favored’ developing nations in OECD markets—those benefiting from free trade agreements.

Market access issues extend beyond tariffs. They include contingent protection (antidumping, safeguards), rules of origin, subsidies to agriculture, FDI incentives in OECD nations, and policies that restrict temporary movement of service suppliers (natural persons). Space constraints have prevented an in-depth discussion of these issues—all of which provide opportunities for action to benefit developing countries.²⁵

²⁵ See the references cited in footnote 1 above and Oyejide (2000).

Greater efforts to determine the impact of proposed rules of the game on developing countries and recognition of the need for flexibility in terms of the time frame for implementation of resource-intensive agreements by lower-income nations should help assuage fears regarding the potential downside of engaging in future negotiations. Moving away from automatic and binding dispute settlement and towards multilateral assistance and arbitration in cases where low-income countries experience difficulties in implementing resource-intensive agreements could also help mobilize support.

A precondition for ensuring that WTO rules are relevant to developing countries is active involvement of stakeholders in these countries in the process of formulating national positions and effective participation by their representatives in the WTO negotiating process. Given human and financial resource constraints, providing funding to allow low-income countries to buy expertise to assist in negotiations and to ‘outsource’ enforcement would help level the playing field. However, such assistance will only be effective if there are complementary efforts at the country-level to determine how to use possible trade rules to attain domestic development objectives. This in turn requires the existence of national processes to identify and prioritize such objectives, a determination by countries how trade fits into overall development strategies and reform priorities, and identification of key bottlenecks.

Efforts to enhance the development-relevance of the WTO should be complemented by parallel initiatives to address key institutional and trade infrastructure constraints in developing economies. The ‘complementary agenda’ potentially spans a large number of areas. While governments and stakeholders should take the lead in identifying priorities and taking actions to strengthen relevant institutions, greater ‘aid for trade’ could

significantly improve the ability of firms and workers in low-income countries both to obtain and to benefit from better access to markets. Options include:

- Assistance to low-income countries to integrate trade into national development strategies. Such assistance has begun to be provided on a pilot basis to LDCs in the context of the Integrated Framework and the PRSP process and could beneficially be extended to include other low-income countries.
- Assistance to help developing countries to attain national environmental and social objectives. Programs in these areas are being implemented by a variety of specialized institutions and development entities. Expanding funding for work in these areas would provide positive incentives to improve outcomes, using instruments that directly target prevailing distortions.
- Programs that focus on specific trade-related issues that are of common concern to all developing countries, including middle-income economies. Examples include product standardization, trade facilitation, and the design of intellectual property protection and service sector regulation.

Ultimately, the development and growth prospects of countries and the ability to benefit from expanded trade depend on the quality of infrastructure and related services (ports, roads, telecoms), education, public health, the judicial system, etc. All of these have a major impact on the investment climate and are critical to the empowerment of people in developing countries. They constitute the major part of the development agenda. The needs in these areas must be addressed through multilateral lending and public and private sector investment. They are not trade issues, and do not figure on the WTO agenda, but are major determinants of the ability to benefit from trade opportunities.

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